

(ii) the lesser of the following rates of interest were used for such month:

(I) The rate of interest specified under the terms of the indebtedness as in effect on October 13, 1995 (and without regard to modification of such terms after such date).

(II) The applicable percentage of the rate of interest described as **Moody's Corporate Bond Yield Average-Monthly Average Corporates** as published by **Moody's Investors Service, Inc.** or any successor thereto, for such month.

For purposes of clause (i), all persons treated as a single employer under subsection (a) or (b) of section 52 of the Internal Revenue Code of 1986 or subsection (m) or (o) of section 414 of such Code shall be treated as 1 person. Subclause (II) of clause (ii) shall not apply to any month before January 1, 1996.

(C) APPLICABLE PERCENTAGE.—For purposes of sub-paragraph (B), the applicable percentage is as follows:

For calendar year	The percentage is:
1996	100 percent
1997	90 percent
1998	80 percent.

(3) SPECIAL RULE FOR GRANDFATHERED CONTRACTS.—This section shall not apply to any contract purchased on or before June 20, 1986, except that section 264(d)(2) of the Internal Revenue Code of 1986 shall apply to interest paid or accrued after October 13, 1995. 26 USC 264 note. (d) SPREAD OF INCOME INCLUSION ON SURRENDER, ETC. OF

CONTRACTS.—

(1) IN GENERAL.—If any amount is received under any life insurance policy or endowment or annuity contract described in paragraph (4) of section 264(a) of the Internal Revenue Code of 1986—

1999 or maturity of such policy or contract during calendar year 1996, 1997, or 1998, or 2000 in full discharge during any such calendar year of the obligation under the policy or contract which is in the nature of a refund of the consideration paid for the policy or contract.

then (in lieu of any other inclusion in gross income) such amount shall be includible in gross income ratably over the

4-taxable year period beginning with the taxable year such amount would (but for this paragraph) be includible. The preceding sentence shall only apply to the extent the amount is includible in gross income for the taxable year in which the event described in subparagraph (A) or (B) occurs.

(2) SPECIAL RULES FOR APPLYING SECTION 264.—A contract shall not be treated as—

2001 failing to meet the requirement of
section 264(c)(1)
of the Internal Revenue Code of 1986. or
2002 a single premium contract under
section 264(b)(1)
of such Code.

solely by reason of an occurrence described in subparagraph (A) or (B) of paragraph (1) of this subsection or solely by